

# The Land Price Spiral

BY P. R. HUDSON

THE AMERICAN management magazine of the housing industry *House & Home* is now part of the McGraw-Hill publishing empire. Its new proprietors have announced that the magazine would retain its editorial freedom and maintain the same high standards of layout and content for which it has become world famous. As if to prove that this was no lip service statement, the September issue contains a five-section report on land, covering land costs, assessments, zoning and planning, new towns and development expenses.

The report begins with examples of land prices:

- \* In the last decade prices for development land have increased by 100 per cent in Pittsburgh and Detroit. Increases of 2,000 per cent have been recorded in Houston and Los Angeles. American land prices range from nothing for homesteaders in Alaska to \$13 million per acre in New York City's Fifth Avenue. In a 1964 land auction of beach frontage plots in California, prices rose by almost fifty per cent in a six-hour bidding period.

- \* The average price of an American one-family home has risen by \$1,000 in one year. In the Los Angeles metropolitan area, developed sites have increased in value by three times in ten years. The ratio of land value to new house selling price has increased from 12½ per cent to anything between 20 per cent and 30 per cent. High land costs are leading to more and more apartment development in the luxury class. Prices of \$180,000 plus per apartment have been recorded.

- \* High land prices segregate population by income and can inhibit growth. In Brookline, Mass., where land prices have risen by 500 per cent in ten years, young families have been forced into other areas with the result that there are more people over the age of sixty-five than there are children at school and the total population has fallen by 3,500 people. It is estimated that in Southern California the supply of housing must double within seven years if the expected population growth is to be accommodated.

- \* Speculative land stock-piling leads to the search for cheaper and more distant sites with attendant problems of public utility provision over large distances, transportation difficulties and urban sprawl.

- \* High land prices are a fact but land scarcity is a myth. Only one per cent of the United States land area is developed. If a town with an eight-mile suburban belt extends its boundaries by only one mile the land area gain is more than the whole of the area within four miles of the town centre and can accommodate nearly half a million people at a density of four families to the acre.

It is pointed out clearly that price rises are due to demand for a monopolised resource. "Of all commodi-

ties, only land can escalate in price with such wild abandon. Why? First, because desirable land is a limited quantity in any fixed location. Second, because preferential tax treatment makes vacant land one of the best investments possible . . . Land carries less than five per cent of the national total tax load."

## Tax Assessments

The report has its knife well into the heart of this problem. Quoting from a recent property tax investigation carried out by an expert on municipal finance, the authors drive their point home: Local assessments practices "constitute the most flagrant disregard for constitutional law and statute among public officials anywhere in the U.S." While average assessments on vacant land represent about 20 per cent of market value, assessments on non-farm residential property are made at about 32 per cent. For every \$1 in real estate taxes paid by the home owner, the vacant lot owner pays 62 cents. Averages, however, are misleading and in many counties assessments show greater disparities.

The main reason for under-assessment is the unwillingness of valuers to take "highest and best use under current zoning" as the main valuation criteria. The article states emphatically that under-assessment is not a bonus to all taxpayers but a gift to the speculator and monopolist. But farmers fear equalised assessments. The U.S. Department of Agriculture reports that annual increases in the market value of farm land have been as large or larger than the annual returns from farm production in five of the past thirteen years. So even if a farmer does nothing with his land and simply holds it for sale he may eventually reap a bigger return than from farming it.

Higher assessments can alter the picture, so that a farmer can no longer hold on to his land. In one area, assessments on farm land bordering developed roads rose from a standard \$300 an acre to between \$3,000 and \$5,000 an acre. Economist Frederick Stocher comments: "The stakes in the land-market poker game are high, and an *ad valorem* tax raises the ante. The farmer is bluffed out before the game gets fairly under way."

Another economist, Roy Wenzlick, says: "Anything that prevents land from being employed for its highest and best use is detrimental to the community." With this remark we would all agree.

In the United States some attempt is made to assess land separately from buildings and taxes are raised on the land assessments, however inaccurate these may be. While the American supporters of the *ad valorem* land tax have far to go, their system is at least ahead of that in Britain. The tragedy is that in a more densely populated country such as Britain, the need for a land tax is even greater than in the U.S.A.